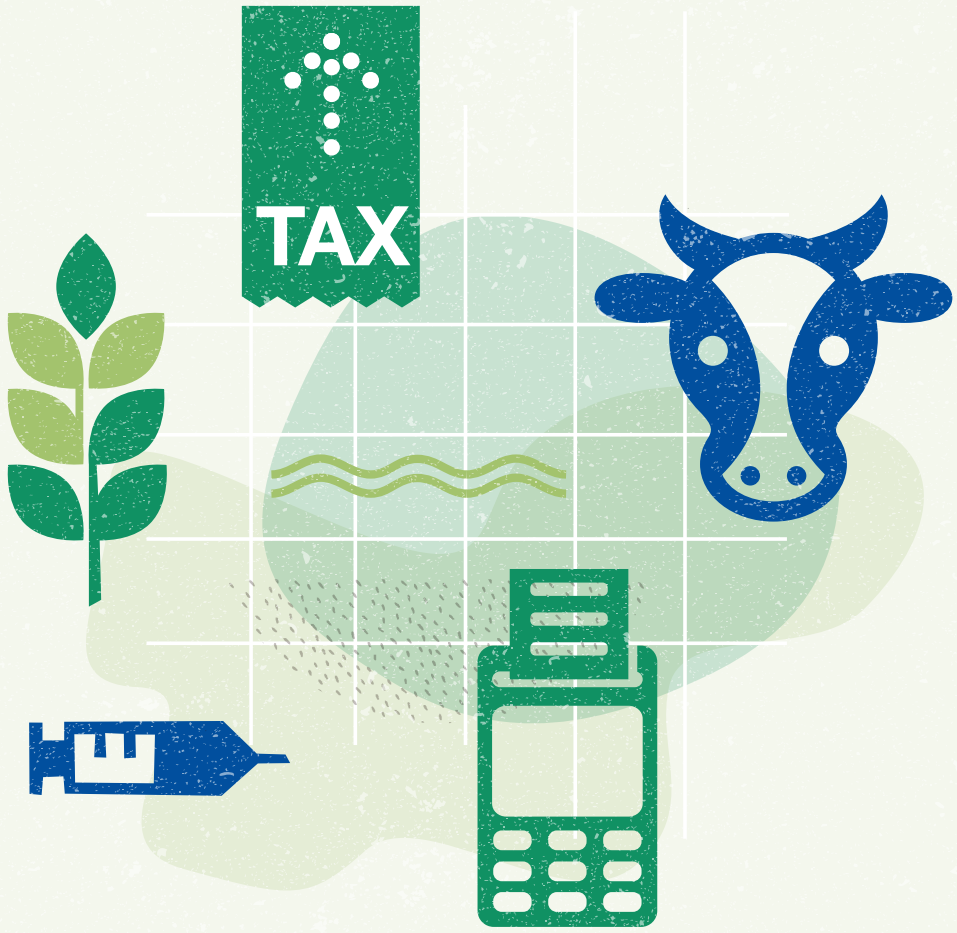
Farming Matters

PKF FRANCIS CLARK
Shared Ambition

NEWSLETTER
ISSUE 02



Is the lump sum offer tempting?

Future funding for farming

Time to be a carbon copy?

Plus: VAT & holiday accommodation, Making Tax Digital, Leaving a legacy for non-farming family, and more...

Welcome

In the winter edition of Farming Matters, I considered the year that was 2020 and looked forward to what was in store for the farming industry in 2021.

My word for the agricultural sector for 2021 was CHANGE and six months on I think the prediction was pretty much spot on. To be honest, however, I think I may have underestimated the speed of change and the impact it was going to have on the sector.

As the year has progressed, we have been provided with more information on what government support for the agriculture sector will look like over the coming years and how farmers might be incentivised to retire from the industry. This is very different to what we have seen in recent years. Both issues are covered in this edition and as ever the devil is in the detail. One size will not fit all and in terms of funding and income, each individual farm needs to consider their own position and the future.

The historic UK and Australia trade deal has been agreed in principle - this being the first deal signed by the UK since it left the EU. Perhaps not surprisingly the deal seems, on the face of it, to have done UK farmers little favours. Did we really expect anything else?

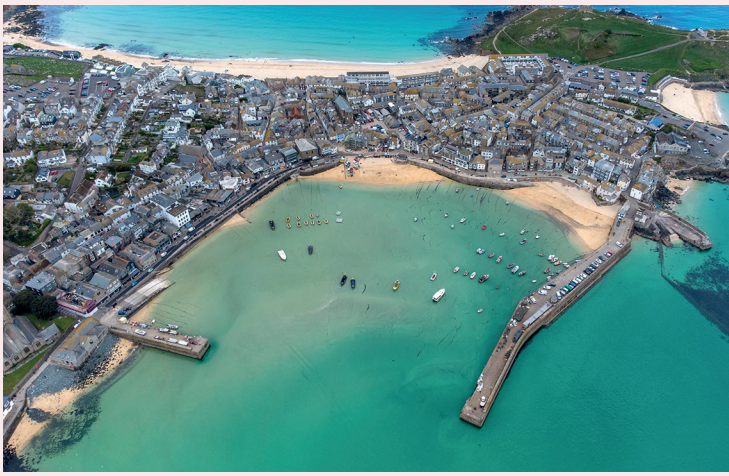
I think we all appreciate that in trade deals there will be winners and losers, but the main concern is the unlevel playing field that our farmers are expected to operate in. Tariff-rate quotas might protect us in the short term but perhaps most worryingly the Australia agreement sets a precedent for future deals with other countries which could have greater implication on the sector.

The other change in terms of the future of farming involves consideration of the environment, natural capital, the environmental costs and benefits of different farming systems, regenerative farming, soil health and fertility, carbon capture, managed woodland and the commitment to being carbon neutral by 2050.

These are all issues I am now having regular discussions with farmers about, whether that be discussing planting of trees, carbon sequestration and tax treatment thereof. With the 26th UN Climate Change Conference (COP26) being held in Glasgow from 31 October – 12 November 2021, this will receive even more coverage and global commitments are likely to accelerate environmental actions and target dates.

Perhaps the only thing that has not changed are the rules relating to capital taxes that went untouched again in the Spring Budget. This gives a window of opportunity for tax planning opportunities, until the autumn at least!

Hopefully this edition of Farming Matters will give you some food for thought and, as ever, if there is anything that we can assist with, please do not hesitate to contact either myself or your local contact.



G7 GOOD

Aussie trade deal bad

Following its success at G7, has the same British farming sector been thrown under the proverbial bus?

As a proud Cornishman, it was simply fantastic to see the eyes of the world on my home county in June as the leaders of the G7 and their respective entourages descended on Carbis Bay and St Ives.

I must congratulate all involved as they did the county proud; even the protests were held with a degree of class and hopefully the economic benefits to Cornwall will be both long lasting and far reaching.

The Cornish food and drink sector gained plenty of media coverage, which I was pleased to see. Whilst being used to entertain the dignitaries, it provided unique opportunities to showcase some of the county's finest products to the world, whether that be fresh fish, meat, fruit, vegetables, cheese and clotted cream, as well as an opportunity for clients and friends to have their moment in front of the camera.

I would like to think that Boris was waxing lyrical to his G7 pals as to the quality on show – the proximity of production, low associated carbon footprint and the high animal and environmental welfare standards adhered to in bringing the product to their plates as he tucked into the barbecue (wearing a suit) whilst watching the Red Arrows. The food and drink, as well as the broader agriculture sector, did Cornwall and Britain proud!

It was therefore with great sadness that just a few days later, in agreeing the in principle free trade agreement with Australia, in part at least, the very same British farming sector was thrown under the proverbial bus.

Am I surprised about this? I am sad to say not at all! I feared that this was always likely to be an unfortunate consequence of Brexit. It may well be that the phasing out of beef and sheep tariffs over 10-years will provide partial protection to our farmers, but my main concern is the precedent that this deal will now set.

I am particularly concerned promises made by the Government that would not allow our farmers to be effectively undercut, by lower standard food imports as part of wider trade negotiations, are nothing but hot air. The relative power of Liz Truss's Department of International Trade and George Eustice's DEFRA is worrying clear for all to see.

It seems ludicrous that any deal is agreed in principle before the independent advisory body, the Trade and Agriculture Commission (TAC), has been able to take a proper look at it. We shall see how much teeth the TAC might have!

I fully appreciate that we live in a world of global competition and trade and that to a certain extent this will hopefully lead to an improvement in the efficiency of UK agriculture and new export opportunities, but this is not just a case of the moaning farmer. As a nation we pride ourselves on expecting the highest level of food safety and animal welfare standards and going forward it surely cannot be acceptable for this issue to simply be exported!

With more trade deals to come, there is further uncertainty for the sector. At a time of reducing direct support and the uncertainty as to what the nuts and bolts of the sustainable farming incentive and other schemes might mean for the average family farm, that has fed the nation for many generations.

For some, perhaps many, the lump sum exit scheme cannot come soon enough, albeit the devil here will be in the detail. For others, now is clearly a time to take stock and take a very hard look at the future opportunities available, to allow them to get the best return from the land, buildings and other resources found on the farm.

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TIME TO BE A CARBON COPY?

Those who farm land will be busy starting harvesting, making hay and silage making. However, the beginnings of radical changes being introduced because of The Agriculture Act 2020 will not have escaped their notice.

Linked to this, there is an acceleration in the public and political momentum for carbon reduction and carbon capture. With farmers and landowners managing and controlling significant swathes of land across the UK, it is to them that both responsibility and opportunity will fall.

You may be the type of farmer who simply wants to get on with farming in your way. That is perfectly understandable, but the direction of travel of UK food production, environmental consideration and carbon reduction seems irreversible. In simple terms, one needs to adapt or fall behind/get caught out.

So exactly what should you be doing, you ask? Well that is the issue.

Like any new technology or new policy, detail is often limited, sketchy and contradictory. Retailers likewise are often slow to react to the reported desire for change unless it is seen as an opportunity to promote their sales and bottom line, in which case they will exploit the rhetoric without necessarily funding those who supply them to deliver on new production methods.

We are already seeing a re-emergence of new renewable opportunities such as on land solar and solar on buildings, and these have a place in the right circumstances. We are also experiencing an interest in nitrate and phosphate offsetting schemes, particularly relevant for those who farm within the appropriate river catchment areas and those who currently operate in sectors that themselves are considered challenges for both nitrate and phosphate levels.

Adapted farming methods that reduce carbon release and in fact encourage carbon capture are options that are available but, as already stated above, such options can only prove economical if they are supported by a premium for the end product produced in a way that generally fulfils the green aspirations of those driving policy.

Lagging behind the ambition for environmental improvements and carbon reduction is the tax system, which remains firmly stuck in the era of food production and husbanding of land for the purpose of cropping and animal rearing. That is the general definition of farming and thus agricultural land for tax purposes as things currently stand.

At PKF Francis Clark, we are particularly keen to work with HMRC and other professional bodies to ensure that tax incentives and tax breaks evolve quickly enough to encourage farmers and land owners to consider adopting the policies that our politicians are increasingly thrusting upon them. For example, should it be a concern if your land is given over for on land solar and should you really be having to reorganise your affairs if you pursue this option to avoid the current risk of significant extra capital tax charges, particularly Inheritance Tax if the landowner dies?

There is a real concern that all taxes are going to rise; be they taxes on income and profits or taxes on assets. One of the golden opportunities to encourage the environmental aspirations our policymakers seek is to develop new tax reliefs that will enable landowners and farmers to make the decisions to adopt new methods knowing their tax position will not be prejudiced.

If you are concerned about capital taxes, tax planning and risk to your business should you be considering alternatives outside of mainstream agriculture, please do contact with one of our specialists in the rural and landed estates teams.

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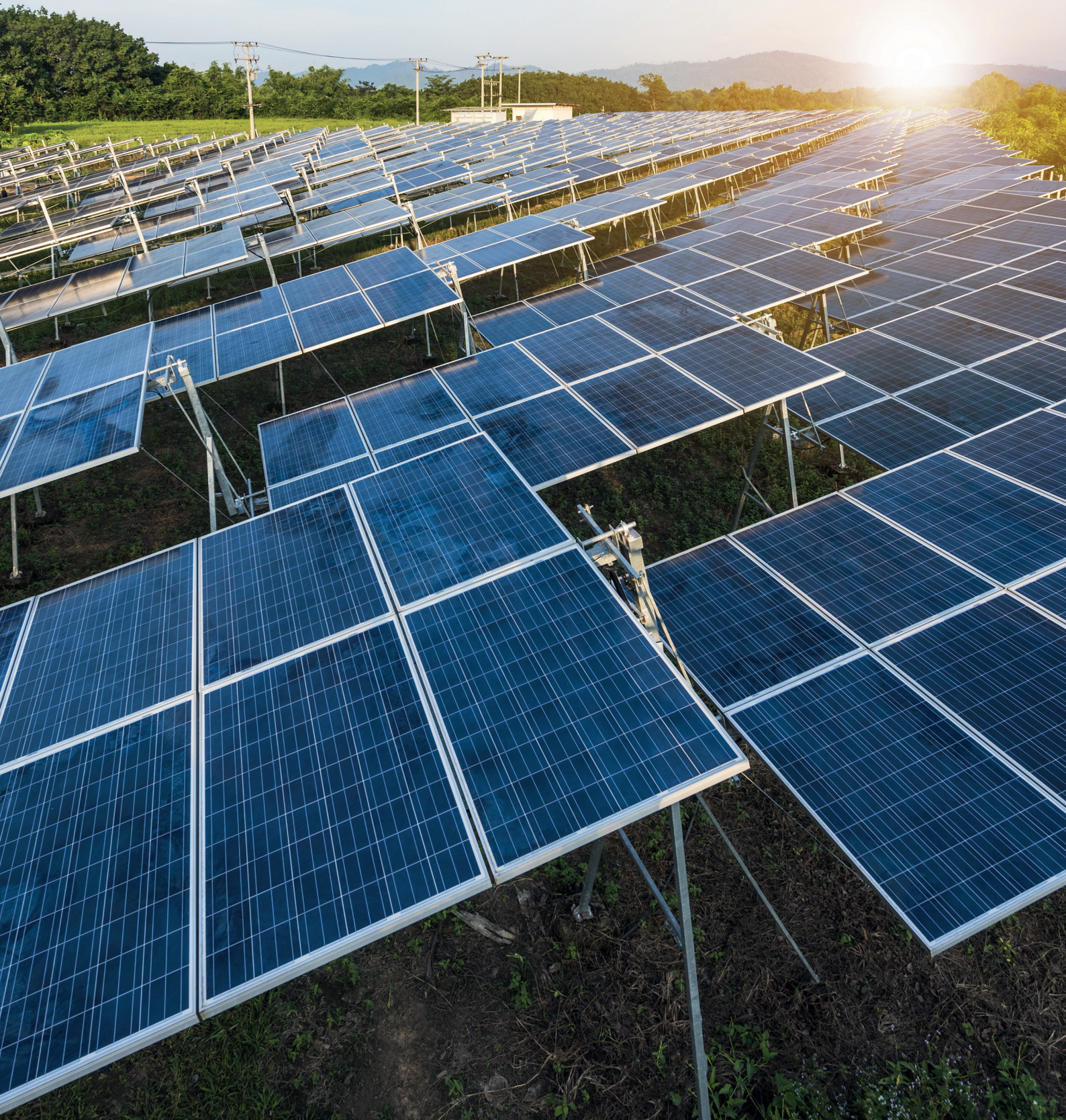
"Make sure that you get the right advice all round before you consider alternative options but at the same instance do not dismiss those options if they are right for your business and your family. Farmers and landowners cannot ignore the often devastating tax consequences of moving away from core farming without putting in place the correct planning beforehand."



Future funding for farming

We have known details of how the Basic Payment Scheme (BPS) will be phased out by 2028 for some time, however we did not know what support is available afterwards. We only knew the bad news, and this made decision making for future planning difficult.

Despite the Agricultural Transition Plan: June 2021 detailing some progress and updates, questions remain.

The publication of the Government's Agricultural Plan in November 2020 outlined three new environmental land management schemes which would be in place by 2024. They were:

- Sustainable Funding Incentive (SFI)
- Local Nature Recovery and
- Landscape Recovery Schemes

Until now, the allocation of the funds between the projects has not been clear and this allocation will have a significant impact on individual farmers and what the future British farm may look like.

For most farmers, the larger scale projects of the Local Nature Recovery and Landscape Recovery Schemes may mean these funds will not be easily accessible, certainly not without significant collaboration. As such, many farmers and consultants have assumed any future funds will come from the SFI; this scheme intending to be the most easily accessible, allowing all farmers to have the opportunity to be rewarded for maintaining and enhancing the natural environment, reducing carbon emissions and improving the health and welfare of farmed animals.

The Government has recently announced that of the £2.4bn per year of expenditure on farming in England (guaranteed for the life of this Parliament), it envisages spending just 30% of the funding on farm-level actions such as the SFI. Together with comments that are aiming for 70% of eligible farms to take part in a scheme by 2028, these announcements show that not all will be benefitting from the schemes and should focus the minds of every farmer reading this article.

It is for the individual farmer to look at the schemes in detail and to investigate to what extent they may be able to utilise them.

One thing that is clear is that the forthcoming changes will see greater diversity in the financial performance of farms in the coming years.

The specific details announced about the early rollout of the SFI scheme in 2022 suggest that in principle this should be available to everyone who is currently under the BPS. Applying for the early rollout should appeal to farmers who want an income stream in addition to their declining BPS.

The core elements of the SFI scheme available in 2022 are:

Arable and horticultural soils standard and improved grassland soils standard

This standard aims to reward farmers for management practices that improve soil health by improving soil structure, soil organic matter and soil biology. Whilst the payment rate is yet to be confirmed, the estimated rate here is £26/ha for the most elementary level of soil management to £70/ha for increasing soil organic matter, with a mid-level payment between the two.

Moorland and rough grazing standard

This standard involves assessing the variety of habitats and features present on their moorland. It appears that payment will be made for identifying pressures on these assets and the risks posed by wildfires. There is planned to be only one level of payment albeit to date there is no indication of what this might be, with promises of more details by November 2021.

Annual Health and Welfare Review

Of a different nature to the above, this is seen as a first step on the Animal Health and Welfare Pathway whereby DEFRA will fund a yearly visit from a vet, who will undertake diagnostic testing and provide advice on improving health and welfare. This will be available for all commercial cattle, pigs and sheep and will range from £269-775 per annum, varying by species.

The above is the complete listing of standards being introduced for SFI payments from 2022 and whilst only a starting point remains a relatively limited list. With a 12% reduction in BPS already introduced for 2021, income streams such as SFI will become increasingly important for farmers.

It is apparent that if farmers are expecting their BPS income to simply be replaced by SFI or similar environmentally based government support then they are sadly mistaken.

The industry is entering a period of unprecedented change and all farm businesses ought to be carrying out a detailed self-appraisal to prepare for the future. Farmers need to be considering their broader business strategy, which may well require looking at what the farm does, cost control, collaboration, efficiency improvements and possibly more diversification.

If you would like to discuss the contents of this article, please contact a member of our team.

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Can spending money on a new building reduce my tax bill?

Many clients have recently spent money on a new shed and then asked whether this will reduce their tax liability. The answer in most cases is unfortunately no. It does however need some careful consideration.

Firstly, the spend is likely to be a cost for capital gains tax (CGT) purposes and therefore on the sale of said shed it would reduce any gain exposed to CGT. However, this is often not helpful in your family farming situation as selling the recently built shed is far from the reason you built it in the first place!

The money spent on your shed could however qualify for roll-over relief, helping you to defer any CGT made on a qualifying business asset disposal. Generally, the investment in your new business asset (i.e. the shed) must be made in the 12 months prior to the gain or three years after (some exceptions) and there are other qualifying conditions to meet.

You might still be reading and thinking these do not apply but fear not! The Structures & Buildings Allowance (SBA) was introduced for qualifying expenditure incurred on or after 29 October 2018. However, the allowance given is just 3% of cost from April 2020 on a straight-line basis.

There are also parts of your shed spend that might qualify under the integral features regime, such as water and electrical systems and there are potentially moveable partitions (if moved in the ordinary course of business) and first year allowances on environmentally beneficial items such as rainwater harvesting equipment.

These last few points highlight that given the choice of spending £50,000 on a new shed or £50,000 on a new tractor, purely from a tax perspective, you might well opt for the latter. You can get 100% tax relief (and up to 130% in a company!) compared with a much smaller proportion available on your building. However, you can't house your prize winning herd in your tractor for the winter (!) and so the decision on capital spend needs not just tax considerations, but thought given to the commercial and practical implications as well.

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Let us look at the recent case of May v HMRC (2019).

Here an arable farmer built a facility to dry and store his grain. At first glance it is just a building and therefore to the untrained eye you may well be discussing the points above. This is what HMRC initially thought but the First Tier Tribunal disagreed and instead allowed the taxpayer to claim full capital allowances as plant, like you would on your tractor.

This is a unique case, but a lot can be learnt from it. The important points in it were that the facility built had smooth flooring, several pedestals, thicker concrete panels to retain maximum grain, air inlet vents, extraction fan, air space only suitable for grain. Also, the facility was temporary and once the corn was sold the premise was cleaned and left empty for a period, meaning it qualified as a silo provided for temporary storage, and therefore fell within the meaning of List C in Section 23 of the Capital Allowance Act 2001. A huge win for the client, meaning their total spend qualified for relief against income tax.

If you have spent or are planning any capital spend then please do get in touch with your local PKF Francis Clark advisor. We have a breadth of experts and capital allowance specialists who can help.

VAT & holiday accommodation a quick start guide

Given that many people have decided to holiday in the UK this year, a quick reminder about VAT on holiday accommodation before hanging out that 'Vacancy' sign may be appropriate.

- The supply of holiday accommodation is subject to VAT at the standard rate of VAT (but see below)
- The scope of what constitutes holiday accommodation is quite wide ranging and encompasses any accommodation advertised or held out as suitable for holiday or leisure use. This includes the letting of a beach hut, caravan or even a private residence advertised as holiday accommodation
- In general, registration for VAT is compulsory once taxable income (that income which is subject to VAT at the zero, reduced (5%) or standard (20%) rate of VAT) exceeds £85,000 in any rolling 12-month period. If the holiday accommodation business has other taxable income, then this is included in the £85,000 calculation. A business can also register for VAT on a voluntary basis where the turnover is less than that threshold and it may be worth considering where significant VAT on costs has been incurred
- With effect from 15 July 2020 until 30 September 2021, income from the supply of holiday accommodation is subject to a temporary reduced rate of 5%. That rate will increase to 12.5% from 1 October 2021 to 31 March 2022. No guidance has been issued as to what rate will apply from 1 April 2022
- HMRC has also indicated that the hire of a boat will qualify for the temporary reduced rate provided that it is suitable for holiday accommodation and is being held out as such. Boats hired out for the day will not qualify for the temporary reduced rate, as they are not being used for holiday accommodation
- Where deposits are received in advance then VAT is accounted for on the applicable rate at the time of receipt. Thus VAT on a deposit received before 30 September 2021 can be accounted for at 5%, even if the holiday accommodation is booked to be provided after 1 October 2021
- Businesses providing holiday accommodation with an annual taxable turnover of less than £150,000 can opt to use the Flat Rate Scheme (FRS), which applies a flat rate percentage of 10.5%. Under the temporary rules this is reduced to nil for the period from 15 July 2020 until 30 September 2021 and 5.5% from 1 October 2021 until 31 March 2022. However:
  - If total turnover exceeds £230,000 the business must leave the scheme
  - The Flat Rate % applies to ALL business activities
  - A 'Low Cost Trader' has to use the higher 16.5% rate
- Businesses providing B&B and similar accommodation where the duration of the stay exceeds 28 days will account for VAT at the standard rate (reduced rate for the temporary period, as above) on that first four weeks, but for any additional period need only account for VAT on a reduced value, as little as 20%, provided the supply is continuous and to an individual
- The letting out of holiday accommodation for residential purposes during the off season can be treated as exempt, BUT beware as this could adversely affect the ability to make full VAT recovery on costs and also does not apply to supplies within the FRS
- Construction services supplied in the course of constructing new or converting to holiday accommodation may qualify for zero or reduced rating (respectively) depending on the circumstances

Should you have any specific queries or require any further assistance please contact the VAT, Customs and Indirect Tax team at VATAdvice@pkf-francisclark.co.uk and a member of our team will contact you.

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Machinery tax relief cut for partnerships and sole traders

Since the Budget there has been much noise about the super-deduction only being available to companies, with partnerships and sole traders, which still make up the vast majority of businesses in the rural sector, not being able to take advantage of these enhanced capital allowances.

We are often questioned why valuable R&D tax credits are also not available for unincorporated businesses. A reasonable question which unfortunately cannot be answered. However, one could argue that these are both examples of the Government's focus on the incorporated sector and perhaps their somewhat short sightedness to the importance of the unincorporated sector in the UK economy.

Looking forward, perhaps those partnerships and sole traders should re-focus on the impact of the fall in the Annual Investment Allowance (AIA) in January 2022 if they are planning to purchase new machinery in the coming year.

Currently all businesses can claim 100% write off on qualifying plant and equipment – and indeed, where applicable, integral features – at a level of up to £1 million per annum for purchases made before December 31 this year. From January 2022 the annual threshold for the AIAs reduces back to the default £200,000 per annum, and this can have a significant effect depending on when your financial year end falls.

Take, for example, a farming partnership with a typical year end of 31 March 2022. That business will only have an annual investment capacity of three twelfths of £200,000 in the last quarter of its current financial year – a total of £50,000. In contrast, for the first nine months of the year, up to 31 December 2021 when the investment allowance reduces, the business will have nine twelfths of the £1 million AIA – or £750,000 of capacity to make machinery changes and write off the value of the replacement equipment at 100%.

The message here is that for partnerships and sole traders with a year-end other than December 31, and in particular the many with a March 31 year end, leaving all your equipment investment decisions until the last quarter of 2021/22 might well result in far less immediate tax relief than you expected to gain.

The situation may be worse if you combine the tax effect of selling old machinery in part exchange deals and the limitation on relief for new machinery, with the default writing down allowance set at a rather paltry 18%.

As always, businesses should only consider changing machinery when there is a business need to do so and when the deals are right for them. Depreciation is still one of the largest costs in many agribusinesses and managing that cost is even more critical as farm incomes potentially come under pressure as a result of free trade and the impact of the Agriculture Act with the phasing out of the Basic Payment Scheme.

For companies, the situation is different and whilst they enjoy the 130% super-deduction for the next couple of years, they also face increased corporation tax rates from April 2023, hence why they have been given higher capital allowances in the meantime.

So, for many partnerships and sole traders, they may be happier to trade off the absence of super relief if they felt their own tax rates were unlikely to rise.

Unfortunately, this cannot be guaranteed and we may also see Income Tax and National Insurance rates rise, as the Government starts to consider the most strategic ways in which it can deal with the significant additional borrowing caused by dealing with the Covid-19 pandemic.

For more information or advice, please contact our agricultural team.

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To upgrade or not?

I rent seven acres of gently sloping land as pony paddocks. The agreement is that I maintain the land and in return pay no rent. Although I have grown up with horses, I have only had to think about my own paddock maintenance in the last 18 months – before this the horses lived in luxury at livery yards!

With the warm weather followed by heavy rainfall in recent weeks the grass grew uncontrollably so instead of allowing the horses to gorge on the long grass I decided I would top it. The owners of the land allowed me to borrow their old (and much loved) Ford 3930 tractor and mower. I'm quite happy driving my car and the horsebox but must admit I was completely overwhelmed by the number of levers and the hand throttle(!). After a rather uncomfortable few hours topping – and stopping every 30 minutes to give the old girl a break – I had managed to top one out of the three paddocks. This seemed like quite enough considering it was 25°C plus!

I live next to a very useful man who works for a machinery dealership (T H White). I was telling him about my poor skills with a tractor and he said he would bring home a piece of demo equipment to try. The next thing I know, a Spider remote controlled mower turned up. For those of you who haven't seen one of these fantastic machines, do look them up online. This was my type of mowing – paddocks and the nearest bridleway mowed beautifully in an evening. The choice for me was obvious – upgrade. Admittedly in both scenarios I wasn't parting with any cash; if I were there would have been considerations in relation to how the machinery purchase was financed.

Purchasing machinery

Very few farming businesses are in the position to purchase big pieces of kit outright, cashflow is simply too tight. Thankfully there are various types of finance available. I will consider the accounting and tax implications of the two most popular types I come across in the table below.

It is important to note that the end of a hire purchase agreement, you own the asset – with an operating lease it is returned after the final lease payment.

When considering how to finance the purchase of machinery it is important to review your cashflow forecast for the term of the agreement. This may well help you decide which type of finance to obtain – or to extend the life of your existing machinery.

Please speak to your contact at PKF Francis Clark for further advice.

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ACCOUNTING	OPERATING LEASE	HIRE PURCHASE
Asset (and liability) on the balance sheet	No	Yes
Payments deductible in profit and loss account	Yes	No
TAX	**OPERATING LEASE**	**HIRE PURCHASE**
Capital allowances	No	Yes
VAT claimed on regular payments	Yes	No
VAT claimed on the full price at the start of the agreement	No	Yes

Where are we now with Making Tax Digital (MTD)?

You may well have heard MTD bandied about by the accountancy profession in recent years and if you have not thought about it yet, unfortunately it has not gone away!

In this brief piece I will walk you through a timeline of events set out below to let you know where we were, where we are now and where we are going.

April 2019:

All VAT-registered businesses with a taxable turnover above the VAT threshold were required to keep their VAT records digitally and send their VAT returns using functional compatible software. There was a six-month deferral to 1 October 2019 for some more complex businesses.

HMRC also introduced a soft-landing period to allow businesses time to get their digital links in place and it is still considered acceptable to copy and paste data for your VAT return submission.

April 2021:

VAT-registered businesses are required to have digital links between different pieces of software going forward. Digital links simply means no manual input of data is allowed unless it is the first point of entry to the accounting system i.e. there should be a clear digital link of the data from the source document all the way through to VAT submission.

April 2022:

All VAT-registered businesses and organisations whatever their turnover will be required to keep their VAT records digitally and send their VAT returns using functional compatible software.

This is being introduced alongside a new points-based penalty regime for late submission of VAT returns (also applying to income tax returns). Taxpayers will receive a point every time they miss a submission deadline. At a certain threshold of points, a financial penalty of £200 will be charged. The threshold is determined by how often a taxpayer is required to make their submission and records for different tax obligations are kept separately.

April 2023:

Self-employed businesses and landlords with annual business or property income above £10,000 will need to follow the rules for MTD for Income Tax from their next accounting period starting on or after 6 April 2023, recording digitally and sending quarterly summaries of their income and expenses to HMRC using functional compatible software.

April 2024:

The MTD for corporation tax pilot is expected to launch on 1 April 2024.

April 2026:

Incorporated businesses will need to keep their business tax records digitally and send quarterly summaries of their income and expenses to HMRC using functional compatible software. MTD for corporate tax is expected become mandatory from this date.

And finally...

The message is therefore loud and clear; MTD is here and if not for you personally yet then it soon will be. Please get in touch with your local PKF Francis Clark advisor to discuss if you have not already. We have a great team of experts dedicated to cloud based accounting systems and MTD. This is a real opportunity to digitalise the way you work and utilise some of the benefits that cloud accounting can offer you and your business.

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A DECADE OF CHANGE FOR UK AGRICULTURE

The Basic Payment Scheme (BPS) will commence being phased out from this year, to effectively nil by 2027. This alone is a major hurdle for businesses where often it makes up the profit with a modest return from the farming activities. A lot of farms are still working on the basis that something will replace it. This is perhaps wishful thinking and a reduction should start being budgeted year on year.

For those open to environmental opportunities, the implementation of the Environmental Land Management Scheme (ELMS) could offer a real opportunity to make up some of that lost income. It will require more pull than previous funding being pushed at farms and greater thought as to how it fits alongside the farming activities.

The environment needs to be considered as another enterprise, rather than fitting into the corners and headlands. Could legume mixes provide beneficial nitrogen fixing and enforced fallow help to reduce blackgrass issues? Could a forage crop option provide environmental funding and be sold to the local dairy farm, instead of planting a less profitable arable break crop? Could a large flower strip provide the perfect backdrop to the new glamping enterprise or wedding venue?

ELMS is set to have three scales; the Sustainable Farming Incentive (a set of standards for features such as grassland and hedgerows with low level payments), Local Nature Recovery (wider collaboration to meet local priorities) and Landscape Recovery (large scale tree planting, peatland restoration etc) so there should be a level which suits everybody. An open mind is needed to larger scale environmental schemes which might indeed be far more profitable than primary agriculture.

Countryside Stewardship is currently open for applications (for agreements starting from 1st January 2022) and this should be considered in the interim before ELMS – an opportunity to get the environmental enterprise up and running!

Another growing marketplace is the sale of environmental credits (biodiversity, carbon, nitrogen or phosphates), with talk of 30+ year agreements to provide offset for new building developments. This is a developing area and one which should be watched carefully. Farmers occupy a significant area of land and therefore are unique in their ability to provide land for sequestering carbon and to reduce emissions – agriculture should be seen as a positive in the Net Zero journey and this is something we should advertise as an industry.

For those unwilling to change, it could be a bumpy road. The golden handshake lump sum payment could offer an opportunity to move forward succession discussions and help retirement, where previously it has looked a major hurdle.

In other cases, legislation such as the requirement to cover slurry stores by 2027, could be an investment too far and hasten the decision to stop dairying or beef production. This shouldn't be seen as failure, but the start of something new – tipping income to fill the lagoon and fund a new building perhaps?

The Farming Investment Fund is expected to open in the next 12 months, with grants for equipment, technology and infrastructure. For those remaining farming, sensible investments to improve efficiency, reduce costs or save labour should be considered. Alternatively, this could be the fund to start the new diversification; milking vending, treehouses or even natural burial.

For those wary or concerned about the future, they should look to sectors such as horticulture or poultry or indeed countries such as New Zealand. These unsupported sectors and countries have seen far greater productivity gains in the last 20 years than other UK farming sectors. We are on the precipice of major change – one which should hopefully result in a younger, more productive and profitable agricultural industry. One which will provide beautiful landscapes, great quality food and is a friend and not the enemy in the UK's Net Zero journey.

LILY HISCOCK
ANDERSONS MIDLANDS

A time to retire

Lump sum: devil in the detail

In recent months, it has become apparent that changes the farming industry will need to face have led to many considering their future options. As well as this, results from recent surveys have indicated that many farmers were interested in receiving a lump sum payment to exit the industry.

I am never afraid to have those difficult conversations with farmers retiring when the circumstances are correct. Whilst the decision is often skewed by the capital tax consequences of selling up and the decision is never easy, a well thought out scheme allowing a farmer to exit with dignity could be well received and allow much needed new blood into the industry.

With the contents of the long-awaited DEFRA consultation on lump sum payment finally being published, I fear the proposed time frame, amount payable and conditions (the detail) will mean this scheme may not have the uptake it could have.

In terms of the time-frame everything feels very rushed. Rather scarily, whilst we are now in the second half of 2021 it remains DEFRA's intention that lump sum payments will only be offered to those who wish to exit the industry in a one-off application window in 2022 with no scope to extend.

Full details of the scheme will not be announced until the end of October 2021 and I do not believe this will give farmers appropriate time to consider the relative merits of the scheme before applications are needed in early 2022. When considering tenant farmers and allowing adequate time for appropriate negotiations with landlords, the rush seems even worse. Retiring is a huge decision for farmers that should not be rushed and having the details confirmed after the seeds for the 2022 harvest have already been sown seems too late.

And then, there is the crucial question of how much will be received.

The amount that a retiring farmer is expected to receive is 2.35 x Lump Sum Reference amount, with this reference period in all likelihood being the average value received over a three-year period (probably 2018, 2019 and 2020) with a proposed cap of £100,000. Meaning a maximum lump sum reference amount of £42,500.

Why 2.35? The inference of this is that by paying 2.35 x the payment a retiring farmer would receive is approximately equivalent to the amount they would have received in Direct Payment for 2022 to 2027 with the BPS being phased out.

So, to put it simply, the retiring farmer will not get any more funds for retiring early but retirement will accelerate the receipt. In fact, for larger BPS recipients above the £42,500 cap they would receive less.

However, the amounts we are talking about here alone are perhaps not enough to allow the farmer to retire with

dignity. There is certainly not enough for the retired tenant farmer to buy their retirement house in the village. Likely, a quick retirement will require realisation of assets (livestock, machinery, land), and the probability of a final income tax bill, capital gains tax and potentially a worsened inheritance tax position.

The whole issue of tax is a potential stumbling block. At present, HMRC are still discussing the tax treatment of the lump sum payments and further guidance is awaited. Whether the lump sum is taxed as either capital or income, this is important as to how attractive the offer is to the recipient.

If the Government really wanted to see the elder generation of farmers retire and give up their land, then a scheme whereby their Agricultural Property Relief (APR) status could be retained would be far more popular!

As it is, I feel there is both a good intention on behalf of the Government to help farmers retire, and an apparent desire for many farmers to look to retire. When the detail is looked at, however, the uptake here might not be a great as the surveys suggest.

As always taking proper advice on something like this is critical. To discuss the contents of this article further, please contact your local PKF Francis Clark advisor.

It is clear DEFRA do not want egg on their face and payments being made to people who, put simply, have not really retired. Whilst still at consultation stage, the proposed conditions and eligibility rules include:

- Only those who claim the BPS will be eligible
- No age restrictions, but applicants must have made their first BPS claim in 2015 or earlier
- BPS applicant would have to give up their land – i.e. sell and/or rent or transfer by gift
- A tenant must surrender their tenancy or pass on under AHA tenancy
- Can retain residential and commercial property and up to 5% of land
- All entitlements cancelled – it will be an all-or nothing scheme
- If lump sum is received, the farm business cannot claim any further direct payments (BPS) – includes any directors of Limited Company and all Partners of a Partnership

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OLD AGE & DEVELOPMENT LAND

Being caught in no man's land

If you are fortunate enough to have land going for development, there is often still a long wait before a suitable deal comes to fruition. Naturally, in all cases, as that deal gets closer the landowner ages and the fear is those older landowners will be exposed to significant taxes, particularly if they sell the land but fail to reinvest the proceeds a result of an untimely death in the interim.

Most farmers are aware of the concept of Roll-over relief to defer the capital gains tax (CGT) arising on the sale of land. Provided all the proceeds from a disposal are reinvested in a suitable qualifying asset such as replacement farm land, the CGT can normally be avoided by taking advantage of this relief.

Roll-over relief requires the individual to reinvest the proceeds within 36 months from the original sale, although in certain circumstances that period can be extended subject to the discretion of HMRC.

What happens if, having sold the development land and whilst sat on the sale proceeds, the farmer dies before they get the chance to roll over the money? If they are sat on a significant amount of cash, will their estates be subject to Inheritance Tax (IHT) on those proceeds?

In most circumstances, the answer to that question would be yes. Significant amounts of cash, whether held personally or within a business, are often subject to the full force of IHT and commonly referred to as an accepted asset in the case of excess cash held in a business account at the time of death.

There is, however, scope for the executors of a deceased landowner who dies before a reinvestment takes place to argue that the deceased had intended to reinvest the monies in a replacement qualifying business asset or assets. Provided sufficient evidence can be put forward to support such a claim, it is often possible to secure IHT relief in the form of Business Property Relief (BPR) on not only the interest in the trading assets of a business but also their significant cash interest not yet reinvested.

Roll-over relief remains possible for the deceased interest in this circumstance. The individual, as the vendor of the land, is not able to make the reinvestment as they have sadly passed on.

A solution to secure both roll-over relief and IHT relief that can be considered in the appropriate circumstances is for the older landowner to make a timely gift of their interest in the relevant land prior to death. Even if the original landowner passes within the seven-year period after the land has been sold but before the proceeds have been reinvested, the person receiving the interest in the land can still secure both roll-over relief (thereby saving CGT) and IHT relief, provided the proceeds from the sale of the land received by them by way of a gift are reinvested within three years of the original sale. The reinvestment would reinforce the representation by the deceased's executors that the family always wanted to reinvest the proceeds into replacement business assets.

It is extremely important that landowners take robust advice when it comes to development land as the sums involved are often large and the legislation can be complex and bespoke to each circumstance. In addition, whenever a gift is contemplated, the person making that gift should be entirely sure they are happy regarding the destination of the asset and that any replacement asset will remain secure in the future. The last thing a farmer wants to do is pass assets down to save 40% IHT only to find the entire asset is exposed to a later claim, such as the recipient of the gift going through a divorce.

Furthermore, for elderly taxpayers, there is a need to ensure they have the ability to alter any arrangements they currently have in place and determining so-called capacity can be a challenge in later life. Certainly, the executors of a deceased landowner do not want to be faced with a claim against themselves and the estate of the deceased from a family member who feels that any changes put forward prior to death prejudiced that family member's own position. This could, for example, very much be the case if development land were gifted prior to death and the ultimate original beneficiaries of the deceased's estate were different to the person or persons receiving that lifetime gift.

Our agricultural team have considerable experience in dealing with a variety of succession, IHT and development land issues. We would be happy to talk with you to give you a clear and concise view on how we could help in areas where you should be focusing your attention.

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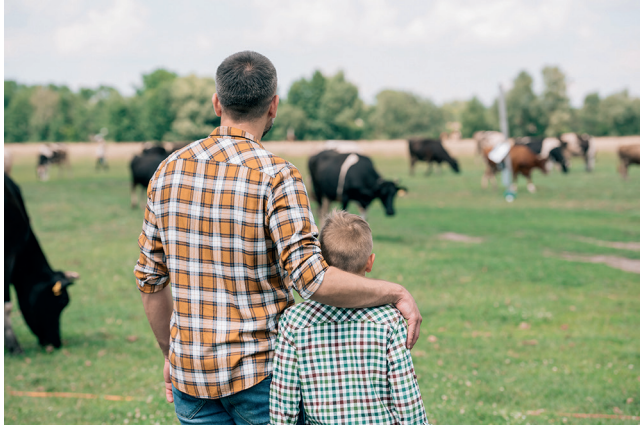
Protecting your family in uncertain times

and providing a legacy for non-farming family

The pandemic has left its mark on many industries, not least the farming community, with a reduction in the availability of casual labour and farming supply issues. With all this to manage, it may leave little time to sit back and consider your own personal circumstances in relation to protecting your family or leaving a legacy to the next generation, particularly those who are not involved in the running of the farm and have careers outside of the family business.

Protecting your family

With running the farm day to day and meeting the extra challenges that come with farming, especially during a pandemic, you may have little time to reflect on what is important, family of course!



So how do you protect them should anything happen to you?

This is where life and critical illness cover in various guises can help protect you and your family if you were unable to work due to long-term ill health or you were to die prematurely.

The cost can be competitive based on age and the level of protection you need, while providing you with peace of mind that the family will have enough money to get through should you not be there or you are unable to work due to illness. Even if you have existing cover, it is worth talking to your financial planner to check if the existing cover is suitable for your family's needs. If you currently have no cover, you may consider taking out a new policy so you have something in place should the unexpected happen.

Leaving a legacy

Turning to succession and legacy planning, it can often be a challenge for farm owners, when there is one child who will continue the farm, to provide a legacy for children not directly involved in the farm. This is particularly challenging if the bulk of the estate is tied up in the land and property linked to the farm.

Building up a sufficient lump sum through investment or pension funding can be difficult as the level of cash required isn't always available when it is needed to help run the farm. Having provision through a whole of life assurance policy, placed in trust, can deliver a specified legacy on your death or the second death of a couple. This can be paid to your children who are not involved in the farm and don't want to inherit the ongoing responsibility of the farm. Depending on the amount you want to leave as a legacy to your non-farming children, the premium can be affordable over your working life.

Taking the time now to look at your own protection requirements and to consider leaving a legacy to your non-farming children can give you peace of mind, knowing that you have sound foundations in place for yourselves and the next generation.

If you would like to find out more, please contact your local PKF Francis Clark adviser.

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Get to know the agricultural team

Meet Kelly Wakeham

Many of our agricultural team hail from farming families so they understand the industry and are best placed to help our clients meet their challenges.

Kelly is an assistant manager within the rural department in our Torquay office and looks after many farmers and families in the South Devon area.

Tell us a bit about yourself and what your family farms.

Hi, I'm Kelly and I live on my family's mixed 900-acre farm in South Devon. The farm consists of dairy, beef, sheep and arable, so plenty to be kept busy with! I spend numerous evenings and weekends milking cows and helping with any other jobs that need doing. I enjoy horse riding and have a Welsh Section D mare and thoroughly enjoy getting involved with Young Farmers, having been a member for many years. I'm currently the chairman of my local club and some of my highlights over the years include attending the English Winter Fair in Staffordshire, going on a scholarship to Latvia and seeing the farming enterprises in America.

Why did you choose to join the accountancy profession?

I chose accountancy as a career because I enjoy problem solving and finding solutions. I also enjoy helping businesses and for me accountancy offered a professional qualification whilst working on the job. I went into the profession after leaving school and have done my AAT and ACCA qualifications. I enjoy working and learning at the same time.

What has been your proudest moment in your career?

My proudest moment so far was being a prize winner, achieving the highest mark worldwide in a tax exam for my Chartered Certified Accountancy qualification.

What are the challenges you feel the farming industry is currently facing?

There are many challenges the farming industry faces:

- The reduction of the BPS scheme
- Farm health and safety - there have been an increased number of fatalities and farming and fishing are considered the most dangerous sectors in the UK
- Climate change, which is something all industries are going to have to consider as well as us as individuals

Are there any changes you would like to see in the farming industry?

Farming is an amazing industry and one for us to be proud of. With fewer people involved in the industry and modernisation than 100 years ago, less and less people are connected to farming. Therefore, it's more important than ever to ensure that we share our stories and promote farming so people know where their food comes from – milk doesn't just magically arrive on the shelves in the supermarket!

Tell me a bit about your role at PKF Francis Clark.

My role at PKF Francis Clark is assistant manager focusing on rural businesses. As a farmer's daughter, I have first-hand knowledge of the issues affecting the sector and this enables me to deliver tailored, practical advice in accounts and tax compliance. I enjoy helping clients to overcome challenges that they face.

Specialist, straight talking, friendly advice

ONLY A PHONE CALL AWAY

Farmers and agricultural businesses often have long standing relationships with their accountants but, with so many changes currently affecting agriculture, those same farmers are increasingly concerned that they are missing opportunities or may not be getting the best advice. They may also be concerned that their affairs have become far more complicated than in the past, with the value of assets having increased considerably and new income streams developed.

At PKF Francis Clark, our specialist rural and landed estates team are often asked to start by giving a review of farming families' tax affairs and to come in and talk about specific other aspects that may be of concern.

You may be concerned about your wills and inheritance tax, paying too much tax on profits, how you fund a new investment either in the farm or diversification, or how you treat the family fairly when it comes to structuring or passing on your assets.

We can also work with our Financial Planning colleagues to provide advice on later life care and planning for retirement. We often find our farming and land-owning clients gain considerable comfort from solutions that they may not have thought were possible.

We are always happy to come out and meet you without cost or indeed obligation and whilst we cannot give advice unless formally appointed, we are very happy to talk through areas where we help many of our existing farming business and explore where we can help you, your family and your business.

We are only a telephone call away, so if you would like an informal meeting, in confidence, call your local agricultural specialist listed opposite.

GET IN TOUCH WITH OUR DEDICATED AGRICULTURAL TEAM

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Business Noodles and Doodles

Where we talk to business leaders around the region

NOODLES AND DOODLES

PKF FRANCIS CLARK

Shared Ambition

We want the best in the field

We're always looking for managers, seniors and trainee accountants specialising in the farming sector to help us grow, as we expand our agricultural expertise throughout the South West.

We have deep, muddy roots in the rural farming community, working with over 550 farms and 45 landed estates across the region.

We work across the whole sector, advising some of the country's largest dairy, livestock and arable farms as well as related rural businesses. So we're looking for talented, passionate, ambitious people who live and breathe 21st century farming.

If you want to be part of a firm with more than a century of experience sharing the ambitions of farmers, landowners and agribusiness and you're excited by what might lie ahead in the next 100 years, we'd love to talk.

careers@pkf-francisclark.co.uk
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